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AMERICAN MANAGEMENT ASSOCIATION

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1992 AMA SURVEY ON QUALITY AND CUSTOMER SATISFACTION PROGRAMS

A Research Report published exclusively for corporate members of the American Management Association

AMA Research Reports

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Quality and Customer Satisfaction

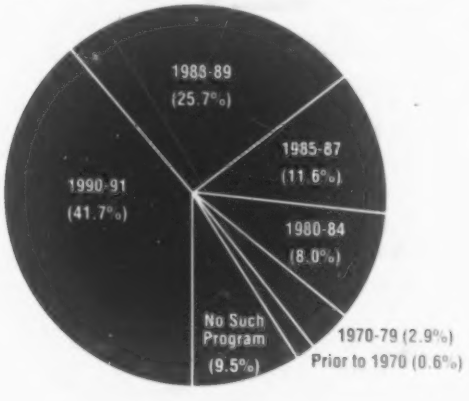
Imagine two pens, exactly alike in design and selling at the identical price of seventy-nine cents. One bears a tag reading "Guaranteed for three months;" the other, a tag reading "Guaranteed for six months."

Looking for the better bargain, you buy the latter pen. It runs dry after four months. You return to the stationers; this time you buy the pen with the three-month guarantee. And like the first pen, it performs for four months.

Same pen. Same price. Same performance. But you are unhappy with the first, because it failed to meet expectations; you are delighted with the second, because it exceeded expectations.

This example, from AMA author John Guaspari, makes the basic point: **Quality is a function of customer expectation measured against performance.** And more than 100 years after Frank Woolworth built his business on the theory that "the customer is always right," a renewed awareness of the customer's role in defining quality guides American corporations as they rush to build programs that assure quality and improve customer satisfaction.

Quality and Customer Satisfaction Programs

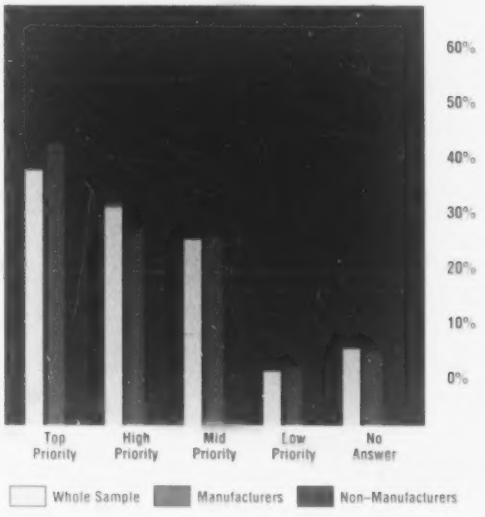


"Rush" is the operative word. While nine out of ten surveyed firms have programs on line, nearly half of them were established in the past two years, and the average program is not yet five years old.

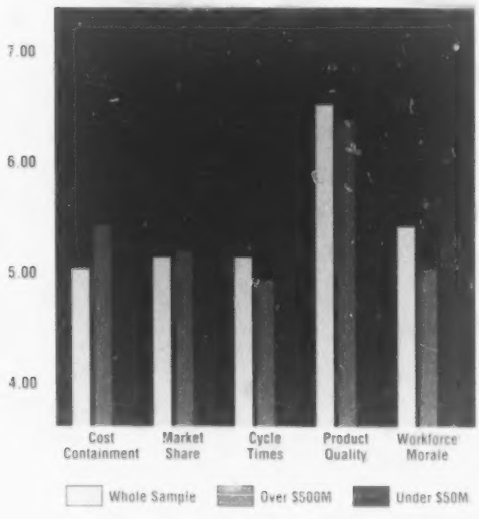
Summary of Key Findings

If the growing presence of quality and customer satisfaction programs is the good news, their priority (compared with other corporate initiatives) is the bad news. Fewer than half of the respondent firms say that the program has "top priority" in the organization. Overall, manufacturers tended to give their quality programs a higher priority than did service providers.

Program Priority Within Organization

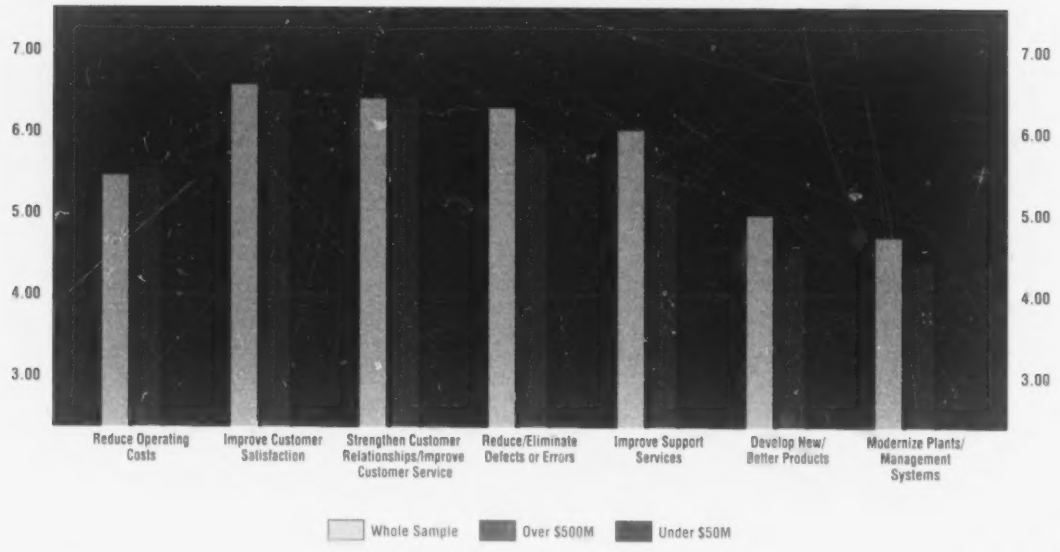


Rationales for Establishing Programs



Ranked on a seven-point scale, **product quality** scored highest among the reasons for establishing quality/customer satisfaction programs. Cost factors were more important to large companies, while cycle times — the ability to bring new products to market in a hurry — were of greater concern to smaller firms.

Components of Quality / Customer Service

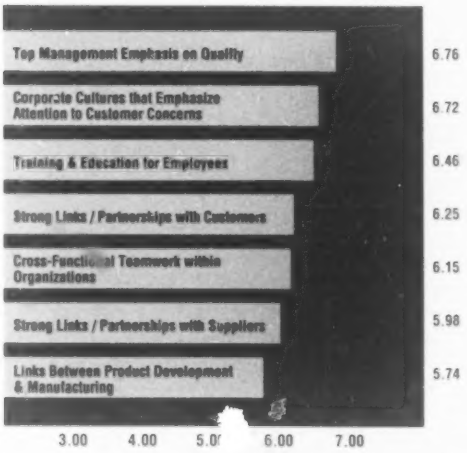


Program Components: "Quality" and "customer service" mean different things to different companies. While there was a goodly measure of agreement among respondent firms on the relative importance of various components, again we found that cost issues were a greater concern to large firms.

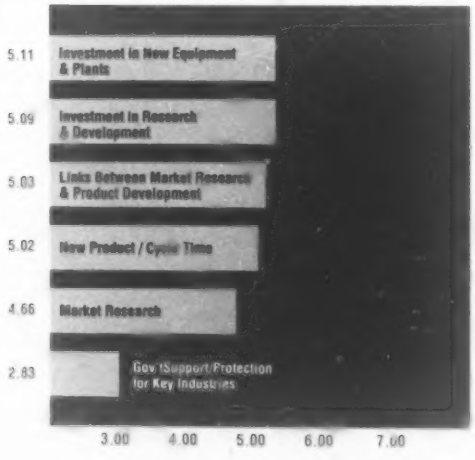
Note also the leading scores given to the definitions "Improve Customer Satisfaction" and "Strengthen Customer Relationships" on a seven-point scale. Quality is not measured by an engineer's calipers; it is defined by the customer using the product or service.

Elements of Success: Asked to gauge the importance of various elements in a company's ability to produce quality goods and provide quality service, respondents confirmed that quality is an **intellectual** phenomenon. The top-rated elements of success, presented here as averages on a seven-point scale, all have to do with interpersonal and cultural factors, rather than machinery and financial investment.

Highly Rated Elements of Success



Lesser Rated Elements of Success (Manufacturers Only)

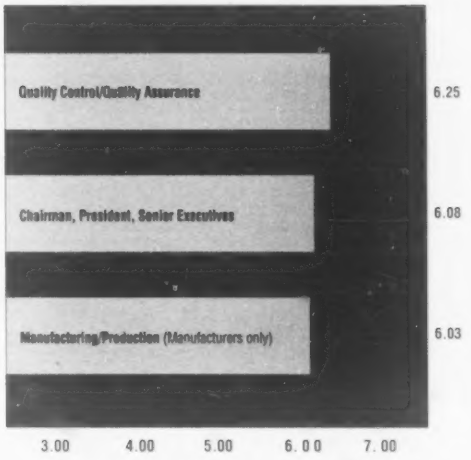


Why does "market research" rate so low? Compared to ongoing partnerships with external customers and linkage with internal customers, market research is slow, cumbersome, expensive — and impersonal.

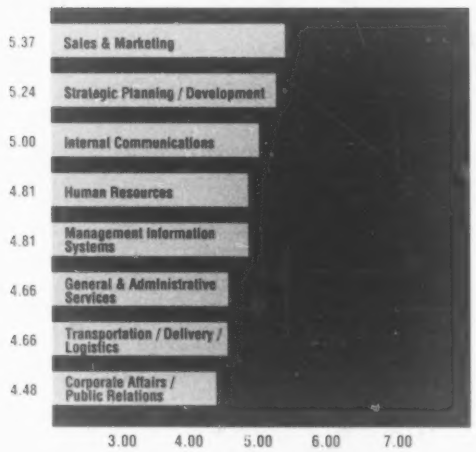
Because several of the lesser-rated elements are applicable only to manufacturers, the averages reported here are from manufacturing firms only.

Departmental Involvement: Despite the awareness that interdepartmental teamwork and employee training are key elements of success in providing quality goods and services, in actual practice everyone is not on board. Ideally **all** departments should be highly involved, but only three sectors — and those the obvious ones — were reported to be highly involved in the process, as indicated by averages on a seven-point scale.

The Improvement Process— Highly Involved Departments



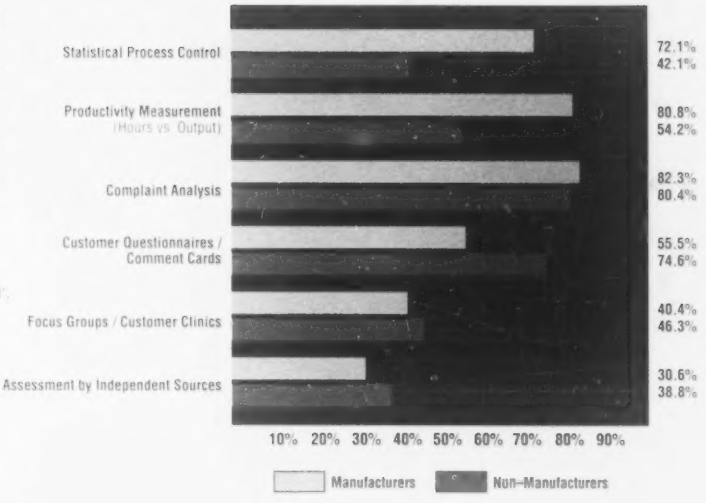
The Improvement Process— Less Involved Departments



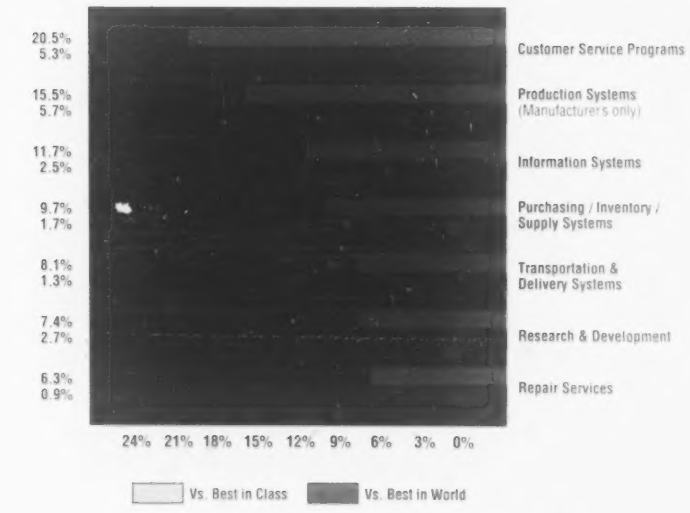
Respondents revealed important contradictions between their "elements of success" ratings (p. 4) and departmental involvement in quality improvement. Training and education scored very high as a success factor, but just a third of respondent firms said that the human resources department was highly involved (i.e., scored 6 or 7 on the seven-point scale) in the improvement process. Also, despite the high marks for cross-functional teamwork as a success factor, few respondents reported high involvement by management information systems (31%) or internal communications (25%).

Tracking Improvement: How do companies know if they're succeeding? Both manufacturers and service providers give highest marks to complaint analysis — the most direct way of listening to customers and understanding their needs. Note that comparatively few non-manufacturers measure hours versus output — although many bill by the hour.

TRACKING QUALITY IMPROVEMENT

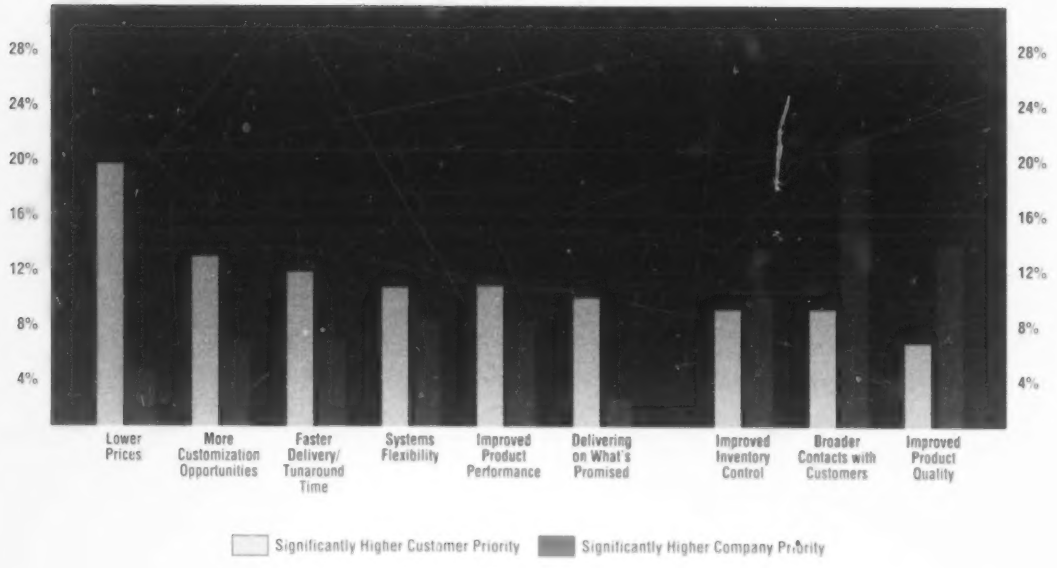


BENCHMARKING



Benchmarking: Only 27 percent of respondent firms do any sort of benchmarking — a formal comparison between one's own processes and those of acknowledged leaders. Only a handful benchmark any internal functions against **world** leaders.

Mismatched Priorities



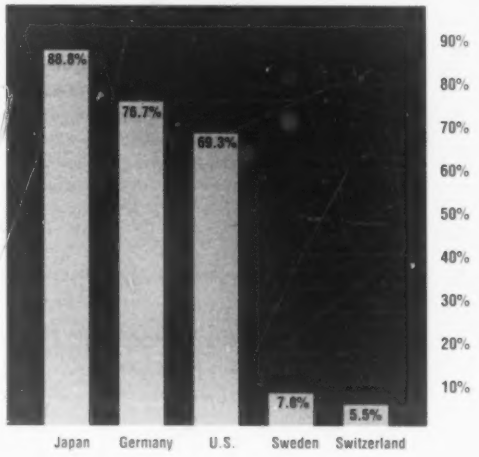
Customer and Company Priorities. Most respondents judge that specific quality and customer satisfaction issues are of roughly equal importance to their own firms and to their customers. However, there are instances where a firm's customers place a higher priority on an issue than the company does, and, conversely, where an issue matters more to the company than to its customers.

To those respondents, the first six issues listed on the graph rate significantly higher as customer concerns than corporate concerns; the last three have higher priority within the company than among its customers.

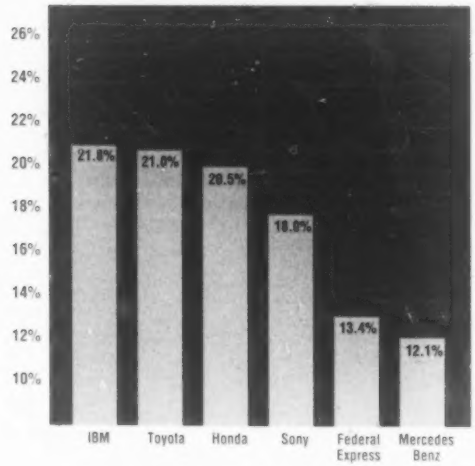
Again, it is important to emphasize that nearly three-quarters of all respondent firms thought that corporate and customer concerns matched up well. The graph shows the exceptions to the rule.

Quality Leaders: These findings represent **personal** rather than corporate opinion. We asked respondents to list the three nations that, in their opinion, achieve the highest overall level of quality and customer satisfaction for their products and/or services. Japan was listed **first** by 70 percent of survey participants, and among the top three by nearly 90 percent. Germany was listed first by 11 percent; the U.S., by 9 percent.

Nations Offering Highest Quality/ Customer Satisfaction



Companies Offering Highest Quality/ Customer Satisfaction



We also asked respondents to list the three companies that rate highest in quality and customer satisfaction. To this open-ended query, respondents wrote in 149 different companies; the leaders, mentioned by over 20 percent of the sample, enjoy a very high level of consensus.

While IBM led the list, only two of the six companies most frequently nominated are based in the U.S.

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About this Survey

The AMA questionnaire on quality and customer satisfaction programs was mailed on October 25, 1991 to 6,535 managers in companies that are corporate members of the American Management Association. By November 22, we had 528 usable responses, a return rate of 8.1 percent.

This self-selecting sample presents the following statistical profile:

Business Category

- Mining & Mineral Extraction 0.4%
- Construction 0.6%
- Manufacturing 47.2%
- Transportation, Communications, & Utilities 7.4%
- Wholesale Trade & Distribution 4.4%
- Retail Trade 3.2%
- Finance, Insurance, Real Estate 7.2%
- Services 22.9%
- Public Administration 0.6%
- Unclassified & Unclassifiable Establishments 6.3%

Annual Sales

- Under $10 million 15.2%
- $10-$49 million 34.5%
- $50-$249 million 25.8%
- $250-$499 million 7.4%
- $500 million or more 14.6%
- Not Reported 2.7%

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1992 AMA SURVEY ON BASIC SKILLS TESTING AND TRAINING

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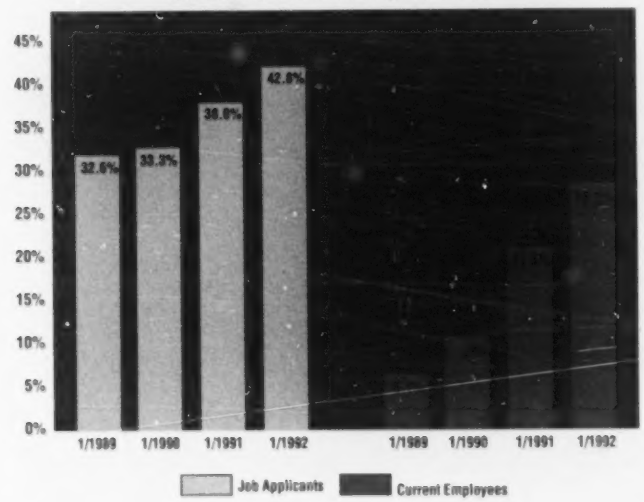
Basic Skills Testing and Training

While companies inch towards solutions to the problem of skills-deficient job applicants and employees, the problem itself grows by leaps and bounds. More than a third of the job applicants tested for basic reading and/or math skills in 1991 lacked the necessary skills to do the job they sought — an increase from 26 percent in each of the past two years.

The corporate response to this growing crisis is two-tiered: to test applicants and employees to determine skill levels, and then to train employees (and in rare instances job applicants) who reveal deficiencies when tested. But the rate of increase in both categories — testing and training — slowed in 1991 as corporate budgets came under recessionary pressures.

Basic Skills Testing, 1989-92



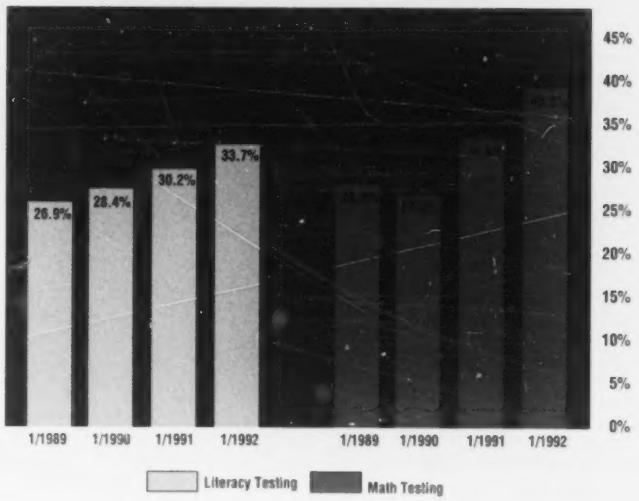
Among the 1,200 companies participating in the 1992 survey on workplace testing, manufacturers seem most aware of the dimensions of the problem and lead in efforts to deal with it. The awareness derives from a higher-than-average deficiency rate among applicants in manufacturing companies (39%); in response, manufacturers lead all business categories in remedial training programs (26%). Compare this with providers of financial services, who had a deficiency rate of 31 percent — but only 8 percent sponsor training programs.

Summary of Key Findings

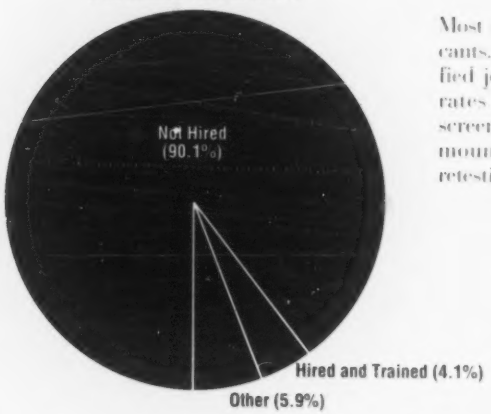
The AMA questionnaire defined functional workplace literacy as "the ability to read instructions, write reports, and/or do arithmetic at a level adequate to perform common workplace tasks." Basic skills testing seeks to discover if job applicants or employees possess those abilities.

Job Applicant Testing: A third of the sample tests literacy levels, while 40 percent test math skills, where deficiency rates are higher. The share of companies that do any applicant testing rose 13 percent in 1991, slightly below the 1990 rate of increase (14 percent).

Job Applicant Testing, 1989-92



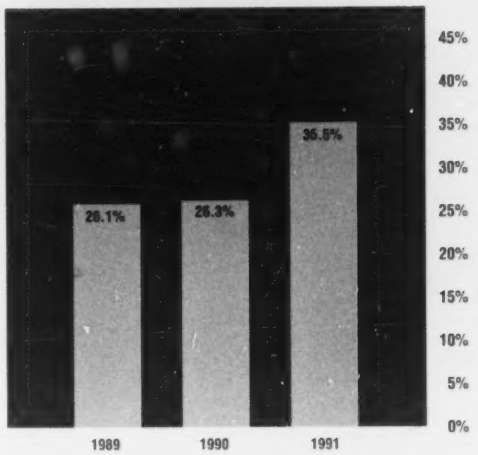
Action on Skills – Deficient Applicants



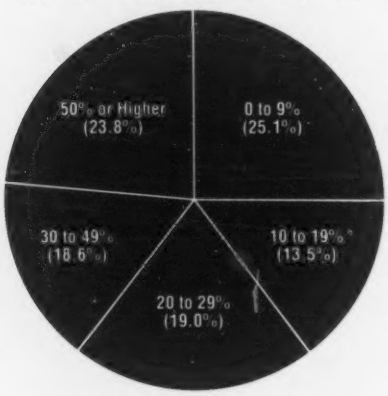
Most companies do not hire skills-deficient applicants, believing that a sufficient number of qualified job-seekers are available. But as deficiency rates rise, more and more applicants must be screened to fill open positions, and hiring costs mount. In the chart, "other" actions include retesting at a later date.

An increasing number of jobs require solid mathematical skills, which is why more companies test in math than reading. But there are fewer qualified applicants for those positions. Among companies that test **only** math skills, the deficiency rate was 46 percent; among firms that test only reading skills, the rate was 27 percent.

JOB APPLICANT DEFICIENCY RATES, 1989-91



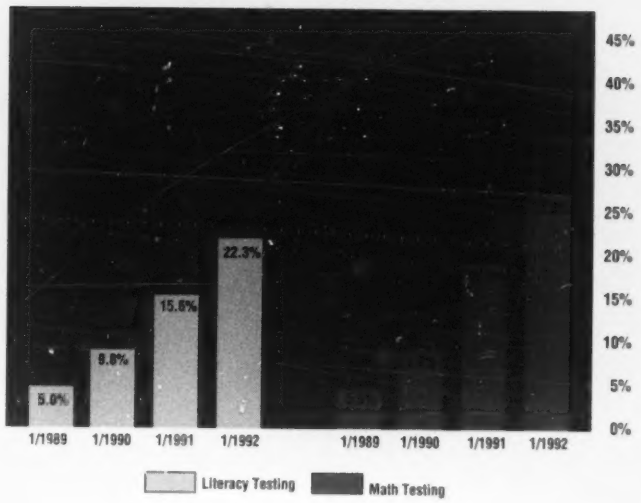
RANGE OF DEFICIENCY RATES, 1991



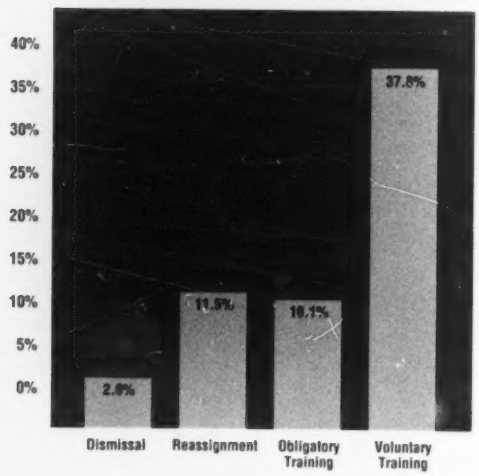
In 1991, companies were almost as likely to report deficiency rates above 50 percent as under 10 percent. Twenty-two respondent firms reported deficiency rates of 70 percent or higher.

Employee Testing: Testing the basic skills of employees, which doubled in 1989 and again in 1990, rose 35 percent in 1991. As with job applicants, employees are more likely to have their math skills tested than their reading levels.

EMPLOYEE TESTING, 1989-92

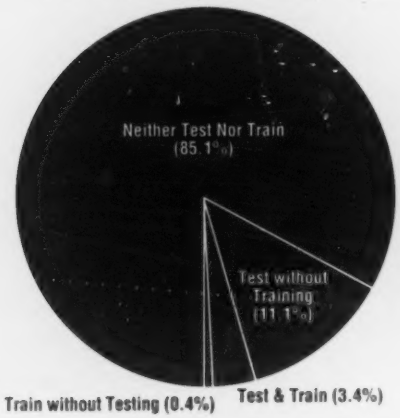


ACTION ON SKILLS – DEFICIENT EMPLOYEES

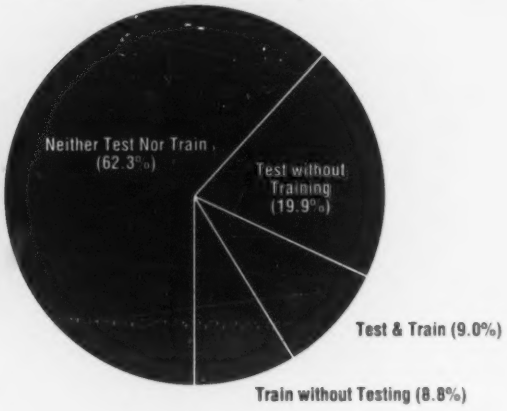


Employers are far more likely to offer **voluntary** remedial training to skills-deficient workers than to insist on obligatory enrollment. A downward trend continues in the share of firms that dismiss skills-deficient employees, from 6 percent in 1990 to 4 percent in 1991 to 2 percent today.

Policy Options (Employees), 1989



Policy Options (Employees), 1992

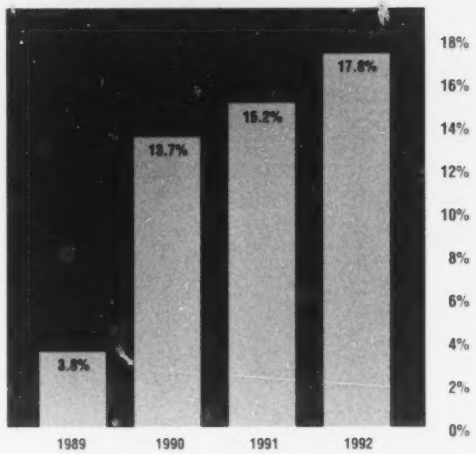


The past three years have seen a significant increase in the share of companies that both test and train employees, and there is a high correlation between testing policies and remedial training programs. Testing demonstrates the need; remedial training is an attempt at a solution.

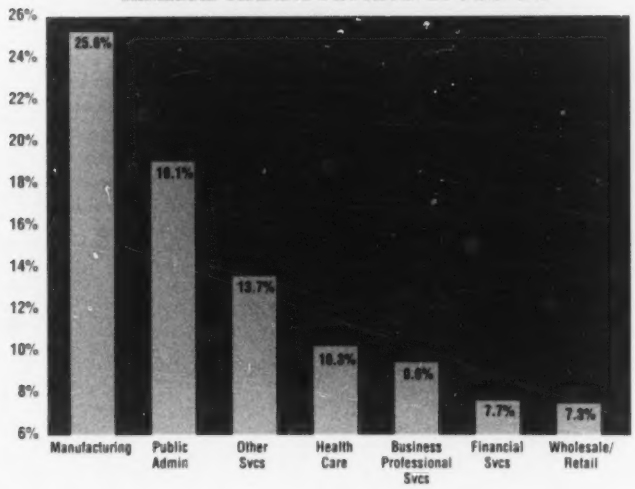
The larger the company, the more likely it is both to test employees and applicants and to train those with deficiency skills. Public administration units, compelled by civil service regulations, lead in employee testing (90%), while manufacturers are most likely to provide training (26%).

With the recession, the rate of growth in remedial training programs has slackened. Concurrent cuts in public education budgets make it likely that the available pool of skills-sufficient workers will be inadequate to fill corporate needs, creating a greater demand for employer-provided training.

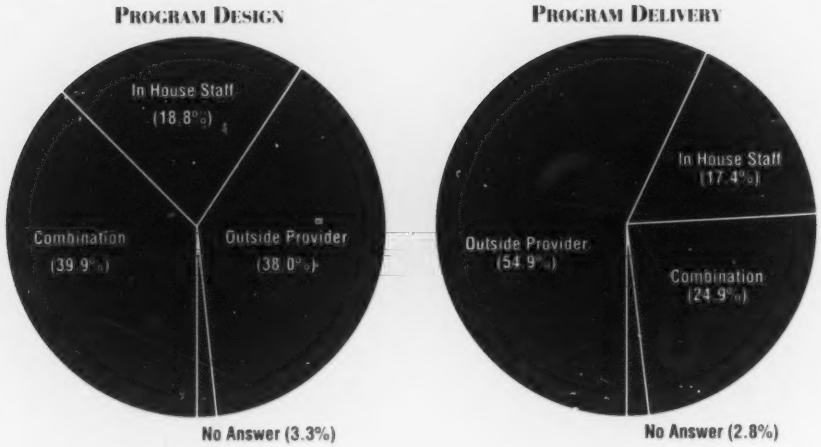
Provide Remedial Training



Remedial Training Programs by Industry



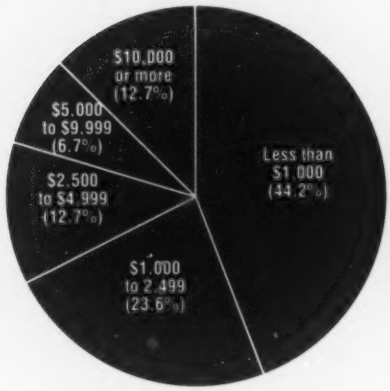
Despite higher-than-average deficiency rates among applicants, providers of financial services sponsor training programs at less than half the national rate. Retailers, with typically high employee turnover rates on the selling floor, are least likely to train their workers.



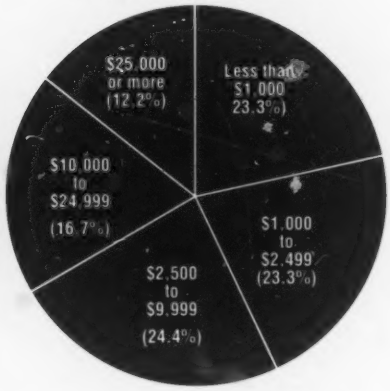
Experts in adult education advise that training works best when it relates directly to actual job requirements. They recommend that employers take a hand in customizing remedial training programs to fit the company and its workers.

But the trend is running the other way. In 1991, the share of respondent firms that place course design entirely in the hands of outside vendors rose to 38 percent from 29 percent, and the share that rely wholly on outsider providers to deliver the courseware rose to 54 percent from 39 percent.

TESTING COSTS, 1991



TRAINING COSTS, 1991



Driven upwards by four large firms that spent more than $100,000 (including one that spent $2.5 million), the average cost of testing programs in 1991 was $27,206. But two-thirds of the firms reporting costs spent less than $2,500.

The costs of training programs vary widely, depending on such variables as overhead costs and whether classroom hours are paid or unpaid time for trainees (respondents report a 50-50 split in pay policies). In 1991 the average corporate cost for remedial training was $12,586, or $167 per employee trained.

RESEARCH

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About this Survey

AMA's sixth annual survey questionnaire on workplace testing was mailed on January 17, 1992, to 13,218 human resources managers. While more than 1,350 responses were received by March 1, we entered data from 1,200 respondent firms — 9.2% of all mailed — to form the database for the present study.

While not identical to the database in previous years, this self-selecting sample is sufficiently like those of earlier surveys to allow statistically valid year-to-year comparisons. The 1992 sample presents the following statistical profile:

SIC Classification

- Agriculture, Forestry, & Fishing 0.4%
- Mining & Mineral Extraction 0.8%
- Construction 1.0%
- Manufacturing 45.0%
- Transportation 2.2%
- Communications 2.6%
- Utilities 2.4%
- Wholesale Trade & Distribution 2.1%
- Retail Trade 3.7%
- Finance, Insurance, and Real Estate 7.6%
- Business & Professional Services 7.8%
- Other Services 21.0%
- Public Administration 1.8%
- Unclassified and Unclassifiable Establishments 1.9%

Annual Sales*

- Under $10 million 10.5%
- $10-$49 million 27.3%
- $50-$249 million 28.4%
- $250-$500 million 7.9%
- Over $500 million 15.8%
- Not Reported 10.1%

*or operating budget, for nonprofit organizations.